



**UNIVERSITY OF WASHINGTON  
INTERNAL LENDING PROGRAM**

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

**UNIVERSITY OF WASHINGTON  
INTERNAL LENDING PROGRAM**

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KPMG LLP  
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## Independent Auditors' Report

The Board of Regents  
University of Washington:

We have audited the accompanying financial statements of the University of Washington Internal Lending Program (Program or ILP), a department of the University of Washington, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements for the years then ended as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Internal Lending Program as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



*Emphasis of Matter*

As discussed in note 1, the financial statements present only the University of Washington Internal Lending Program and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2019 and 2018, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

*Other Matter*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington  
October 23, 2019

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Unaudited – See accompanying auditors' report

**Discussion and Analysis Prepared by Management**

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington Internal Lending Program (Program or ILP) for the years ended June 30, 2019 and 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The ILP commenced operations on July 1, 2008 based upon the direction and authority of the University of Washington Board of Regents (Board of Regents). It operates as a program of the University of Washington (University).

The ILP makes loans to internal borrowers at a uniform lending rate. These internal loans are funded through the issuance of University General Revenue debt obligations or through the Capital Asset Pool (CAP). The ILP finances capital projects with maturities up to 30 years.

The internal loan portfolio consists of loans to internal units, while the external debt portfolio comprises short-term and long-term debt obligations of the institution. The external debt portfolio is actively managed to reduce the institution's cost of capital and to achieve stability and predictability in the internal lending rate. Active management of the external debt portfolio entails the possible use of risk-evaluated debt structures and debt management techniques to achieve the lowest risk-adjusted cost of capital consistent with market conditions and institutional credit considerations.

On November 10, 2016, the Board of Regents approved the creation of the Bridge Program. This program was designed to provide short-term bridge funding for gift-funded capital projects at market-based interest rates. The first capital project to use this program was the Computer Science and Engineering (CSE) Building. At the end of fiscal year 2019, there was \$4.1 million in outstanding Bridge Program loans, entirely from the CSE Building

The management of the ILP and the external debt portfolio is performed in accordance with policies set forth in the University's Debt Management Policy as approved by the Board of Regents.

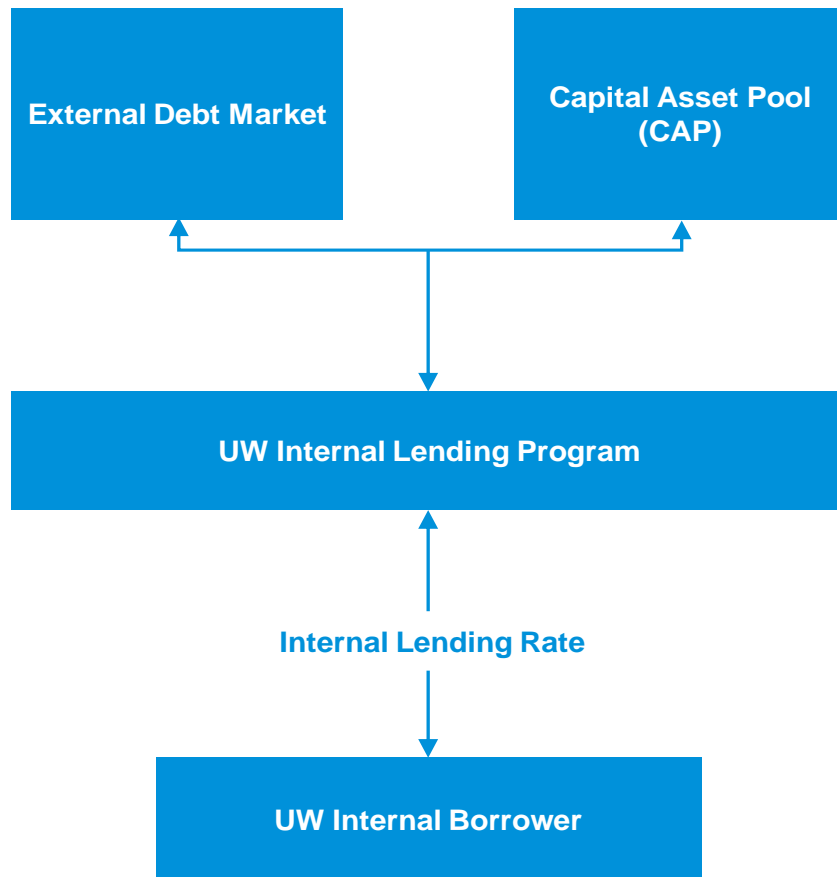
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The diagram below outlines the relationship between the University's internal borrowers, the ILP, and the external debt market:



**Using the Financial Statements**

The ILP's financial statements include the statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to financial statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for state and local governments, including public colleges and universities. Information about the financial condition of the ILP is provided in the summaries and explanations that follow.

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**Statements of Net Position Summary**

The statements of net position reflect the financial condition of the ILP at the end of the fiscal year and report the various categories of assets, deferred outflows of resources, liabilities, and net position. The following summary statements of net position show the ILP's total assets, deferred outflows of resources, total liabilities, and net position as of June 30, 2019, 2018, and 2017:

**Summary Statements of Net Position**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 218,203,912	209,848,399	299,946,454
Noncurrent assets	<u>1,979,717,591</u>	<u>1,997,995,429</u>	<u>1,819,380,073</u>
Total assets	2,197,921,503	2,207,843,828	2,119,326,527
Deferred outflows of resources	<u>21,075,889</u>	<u>22,463,126</u>	<u>23,949,688</u>
Total assets and deferred outflows of resources	<u>\$ 2,218,997,392</u>	<u>2,230,306,954</u>	<u>2,143,276,215</u>
Current liabilities	\$ 122,710,685	190,005,268	161,532,163
Noncurrent liabilities	<u>1,975,789,799</u>	<u>1,937,363,927</u>	<u>1,891,136,606</u>
Total liabilities	2,098,500,484	2,127,369,195	2,052,668,769
Unrestricted net position	<u>120,496,908</u>	<u>102,937,759</u>	<u>90,607,446</u>
Total liabilities and net position	<u>\$ 2,218,997,392</u>	<u>2,230,306,954</u>	<u>2,143,276,215</u>

The following are comments about the summary statements of net position:

- As of June 30, 2019, current assets included \$115.1 million in cash and cash equivalents in the University of Washington Invested Funds Pool (IFP), \$27.3 million in restricted investments of undistributed bond proceeds, and \$68.0 million in current internal loan receivables. As of June 30, 2018, current assets included \$137.4 million in cash and cash equivalents in the University of Washington Invested Funds Pool (IFP), \$1.8 million in restricted investments of undistributed bond proceeds, and \$63.6 million in internal loan receivables. In fiscal year 2019, current assets increased by \$8.4 million primarily due to an increase in restricted investments resulting from undistributed bond proceeds and the current portion of internal loan receivables, offset by a decrease in cash and cash equivalents in the IFP as a result of making additional loans to borrowers. In fiscal year 2018, current assets decreased by \$90.1 million primarily due to a decrease in cash and cash equivalents in the IFP and as a result of a decrease in undistributed bond proceeds.
- Noncurrent assets consist entirely of internal loan receivables from participating departments within the University of Washington. Noncurrent assets were \$18.3 million lower at the end of fiscal year 2019 compared to the end of fiscal year 2018 due to the collection of outstanding loans. Noncurrent assets were

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\$178.6 million higher at the end of fiscal year 2018 compared to the end of fiscal year 2017, as a result of increased long-term internal lending to various University departments.

- Deferred outflows of resources consist entirely of deferred losses on refundings. Deferred outflows of resources decreased \$1.4 million in fiscal year 2019 compared to the end of fiscal year 2018 and by \$1.5 million in fiscal year 2018 compared to the end of fiscal year 2017 due to amortization of deferred losses on refundings during both fiscal years.
- As of June 30, 2019, current liabilities included \$68.1 million in bonds payable, \$25.0 million in outstanding commercial paper, and \$25.1 million in interest payable. As of June 30, 2018, current liabilities included \$71.2 million in bonds payable, \$90.0 million in outstanding commercial paper, and \$25.2 million in interest payable. Current liabilities decreased by \$67.3 million in fiscal year 2019 compared to the end of fiscal year 2018 primarily due to a \$65.0 decrease in commercial paper. Current liabilities increased by \$28.5 million in fiscal year 2018 compared to the end of fiscal year 2017 primarily due to an increase in commercial paper, partially offset by a decrease in amounts due to the University, which resulted from capital project expenditures made close to year-end.
- Noncurrent liabilities as of June 30, 2019 included \$1,844.6 million in bonds payable and \$131.1 million in CAP payable to IFP. Noncurrent liabilities as of June 30, 2018 include \$1,803.5 million in bonds payable and \$133.9 million in CAP payable to IFP. The \$38.4 million increase in noncurrent liabilities in fiscal year 2019 compared to the end of fiscal year 2018 and the \$46.2 million increase in noncurrent liabilities in fiscal year 2018 compared to the end of fiscal year 2017 resulted primarily from additional external borrowing by the ILP.

**ILP's Net Position**

Unrestricted net position includes all funds available to the ILP for any purpose associated with the University's mission. Unrestricted net position is primarily designated for future internal loans. Net position increased by \$17.6 million, or 17%, during fiscal year 2019 compared to the end of fiscal year 2018 and by \$12.3 million, or 14%, during fiscal year 2018 compared to the end of fiscal year 2017. The increases for both periods resulted from the ILP collecting more money on interest from internal loans than was paid externally for interest expense.



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**Statements of Revenues, Expenses, and Changes in Net Position**

The statements of revenues, expenses, and changes in net position presents the ILP's operations and nonoperating revenues and changes in net position. The following summary shows the revenues, expenses, and changes in net position for the years ended June 30, 2019, 2018, and 2017:

**Summary Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 92,450,964	84,805,886	82,649,236
Operating expenses	<u>78,949,534</u>	<u>76,460,974</u>	<u>73,330,475</u>
Operating income	13,501,430	8,344,912	9,318,761
Nonoperating revenues	<u>4,057,719</u>	<u>3,985,401</u>	<u>10,519,993</u>
Change in net position	17,559,149	12,330,313	19,838,754
Net position, beginning of year	<u>102,937,759</u>	<u>90,607,446</u>	<u>70,768,692</u>
Net position, end of year	<u>\$ 120,496,908</u>	<u>102,937,759</u>	<u>90,607,446</u>

The following are comments about the revenues and expenses highlighted in the summary:

- Operating revenues consists of interest collected and accrued on internal loans. Operating revenues increased by \$7.6 million, or 9%, in fiscal year 2019 compared to fiscal year 2018, primarily due to the increase in the number of internal loans earning interest in fiscal year 2019 compared to fiscal year 2018. Operating revenues increased by \$2.2 million, or 3%, in fiscal year 2018 compared to fiscal year 2017, primarily due to a \$179.6 million increase in internal loans outstanding in fiscal year 2018 compared to the end of fiscal year 2017.
- Nonoperating revenues includes \$0.4 million in net investment income earned on unspent bond proceeds and \$3.6 million in Build America Bonds (BABs) grant revenue. Nonoperating revenues in fiscal year 2019 were largely in line with the prior year comparative period. In fiscal year 2018, nonoperating revenues decreased by \$6.5 million or 38% compared to 2017 primarily due to the discretionary annual Invested Funds income allocation being set at zero in fiscal year 2018 for the ILP.
- In fiscal year 2019, operating expenses included \$74.6 million in interest paid and accrued on outstanding bonds and commercial paper compared to \$72.6 million in interest paid and accrued on outstanding bonds and commercial paper in fiscal year 2018. Interest expense increased by \$2.0 million in fiscal year 2019 compared to fiscal year 2018 due to increased debt service as a result of additional borrowings. Expenses to administer the ILP program totaled \$4.4 million and \$3.9 million for the fiscal years ended 2019 and 2018, respectively. Administrative expenses includes fees paid for legal counsel, financial advisory services, rating agencies, underwriter's discount, staff salaries and benefits, and Provost credit support fee.

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**Debt Administration**

The University is rated Aaa by Moody's and AA+ by Standard & Poor's. At the beginning of each fiscal year, the Board of Regents approves a bond resolution that contains the maximum amount of General Revenue Bonds that the University can issue in the upcoming year. The resolution allows the University to issue bonds to fund approved capital projects. During fiscal years 2019 and 2018, the ILP issued \$100.0 million and \$102.6 million, respectively, in General Revenue Bonds, as disclosed in note 7.

Moody's and Standard & Poor's have assigned short-term ratings of P-1/A-1+, respectively, to the University's commercial paper program. These are the highest short-term ratings each agency assigns. The University has a \$250.0 million commercial paper program, and issues commercial paper throughout the year to manage construction cash flow between long-term debt issuances. In fiscal years 2019 and 2018, the ILP issued \$60.0 million and \$155.0 million, respectively, and paid down \$125.0 million and \$90.0 million, respectively, in commercial paper.

The ILP provides regular updates on internal loans and external debt as part of its ongoing reporting to the Board of Regents.

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Statements of Net Position

June 30, 2019 and 2018

<b>Assets</b>	<b>2019</b>	<b>2018</b>
	<u>                    </u>	<u>                    </u>
Current assets:		
Cash in the University of Washington Invested Funds Pool	\$ 115,109,881	137,359,701
Restricted investments, current	27,274,179	1,814,382
Interest receivable	7,839,323	7,077,137
Internal Lending Program receivable, current portion	<u>67,980,529</u>	<u>63,597,179</u>
Total current assets	<u>218,203,912</u>	<u>209,848,399</u>
Noncurrent assets:		
Internal Lending Program receivable, net of current portion	<u>1,979,717,591</u>	<u>1,997,995,429</u>
Total noncurrent assets	<u>1,979,717,591</u>	<u>1,997,995,429</u>
Total assets	2,197,921,503	2,207,843,828
Deferred outflows of resources:		
Loss on refunding	<u>21,075,889</u>	<u>22,463,126</u>
Total assets and deferred outflows of resources	<u>\$ 2,218,997,392</u>	<u>2,230,306,954</u>
<b>Liabilities and Net Position</b>		
Liabilities:		
Accounts payable	\$ 9,369	40,121
Accrued salaries and vacation payable	83,453	129,237
Interest payable	25,135,434	25,181,195
Unearned revenue – Build America Bonds	—	751,151
Due to University of Washington	1,622,062	63,606
Commercial paper	25,000,000	90,000,000
CAP payable to IFP, current portion	2,750,031	2,629,244
Bonds payable, current portion	<u>68,110,336</u>	<u>71,210,714</u>
Total current liabilities	<u>122,710,685</u>	<u>190,005,268</u>
CAP payable to IFP, net of current portion	131,142,306	133,892,337
Bonds payable, net of current portion	<u>1,844,647,493</u>	<u>1,803,471,590</u>
Total noncurrent liabilities	<u>1,975,789,799</u>	<u>1,937,363,927</u>
Total liabilities	2,098,500,484	2,127,369,195
Net position:		
Unrestricted net position	<u>120,496,908</u>	<u>102,937,759</u>
Total liabilities and net position	<u>\$ 2,218,997,392</u>	<u>2,230,306,954</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position  
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Interest revenue	\$ 92,450,964	84,805,886
Total operating revenues	<u>92,450,964</u>	<u>84,805,886</u>
Operating expenses:		
Interest expense	74,582,102	72,564,687
Administration expenses	4,367,432	3,896,287
Total operating expenses	<u>78,949,534</u>	<u>76,460,974</u>
Operating income	<u>13,501,430</u>	<u>8,344,912</u>
Nonoperating revenues:		
Grant revenue subsidies	3,643,474	3,630,939
Investment revenue, net of expenses	414,245	354,462
Total nonoperating revenues	<u>4,057,719</u>	<u>3,985,401</u>
Change in net position	17,559,149	12,330,313
Net position at beginning of year	<u>102,937,759</u>	<u>90,607,446</u>
Net position at end of year	<u>\$ 120,496,908</u>	<u>102,937,759</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Interest received from internal borrowers	\$ 91,688,778	84,667,286
Loans made to internal borrowers	(50,894,555)	(242,215,543)
Principal received from internal borrowers	64,789,042	62,738,137
Payments for administration expenses	<u>(4,443,967)</u>	<u>(3,833,979)</u>
Net cash provided by (used in) operating activities	<u>101,139,298</u>	<u>(98,644,099)</u>
Cash flows from noncapital financing activities:		
Proceeds from issuance of bonds	108,132,000	105,427,627
Proceeds from the issuance of commercial paper	60,000,000	155,000,000
Build America Bonds grant received	2,892,323	4,207,211
Proceeds from (payments to) the University	1,558,456	(42,386,159)
Principal paid on debt	(72,685,718)	(54,125,575)
Principal paid on commercial paper	(125,000,000)	(90,000,000)
Interest paid on debt	<u>(73,240,627)</u>	<u>(70,358,313)</u>
Net cash (used in) provided by noncapital financing activities	<u>(98,343,566)</u>	<u>7,764,791</u>
Cash flows from investing activities:		
Purchases of investments	(168,351,647)	(321,918,989)
Proceeds from sales of investments	142,889,381	372,706,483
Investment income	<u>416,714</u>	<u>360,095</u>
Net cash (used in) provided by investing activities	<u>(25,045,552)</u>	<u>51,147,589</u>
Net decrease in cash and cash equivalents	(22,249,820)	(39,731,719)
Cash and cash equivalents at beginning of year	<u>137,359,701</u>	<u>177,091,420</u>
Cash and cash equivalents at end of year	<u>\$ 115,109,881</u>	<u>137,359,701</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 13,501,430	8,344,912
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Interest expense	74,582,102	72,564,687
Changes in operating assets and liabilities:		
Increase in interest receivable	(762,186)	(138,600)
(Decrease) increase in Internal Lending Program receivable	13,894,488	(179,477,405)
(Decrease) increase in accounts payable and accrued liabilities	<u>(76,536)</u>	<u>62,307</u>
Net cash provided by (used in) operating activities	<u>\$ 101,139,298</u>	<u>(98,644,099)</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

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**(1) Organization and Summary of Significant Accounting Policies**

**(a) Organization**

The University of Washington's Internal Lending Program (Program or ILP) is a program of the University of Washington (the University). The purpose of the ILP is to lower the University's overall cost of capital and provide internal borrowing units with a stable and predictable borrowing rate. The Board of Regents approved the ILP on May 15, 2008, with ILP operations commencing on July 1, 2008.

Debt of \$576,386,287 incurred by the University or its units before July 1, 2008 and restricted investments of \$4,937,799 were transferred into the ILP at the remaining book value and related receivables from internal borrowers of \$571,448,488 were established between the internal borrowers and the ILP as of July 1, 2008. The internal borrowers pay the same interest rate at which the transferred debt was issued in the external market. Debt noted below was not transferred or transferred at the same interest rate:

- Debt repaid from state-appropriated University funds was not transferred
- Debt issued by an external entity other than the state of Washington on behalf of the University was not transferred
- Personal property capital leases and personal property Certificates of Participation (COP's) were not transferred
- Lines of credit were not transferred
- University of Washington General Revenue Bonds, Series 2007 were transferred at the ILP rate

The ILP makes new loans to internal borrowers at a uniform internal lending rate. These loans are funded through the issuance of University General Revenue Bonds, state of Washington General Obligation Bonds, short-term notes such as commercial paper, the Capital Asset Pool (CAP) or through ILP reserves. The CAP uses University funds to finance capital projects with maturities up to 30 years. The debt issued to fund loans is an obligation of the University; the Program manages the debt on behalf of the University. The ILP program policies include a provision for a rate stabilization reserve and a provision for rate adjustments if necessary.

**(b) Basis of Presentation**

The financial statements of the ILP have been prepared in accordance with accounting standards established by the Governmental Accounting Standards Board (GASB). The ILP is reporting as a special-purpose government engaged in business-type activities (BTA). As such, the ILP presents management's discussion and analysis, statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to financial statements. The financial statements present only the University of Washington's Internal Lending Program and do not purport to, and do not, present fairly the financial position of the University, as of June 30, 2019 and 2018, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

**(c) Cash in the University of Washington Invested Funds Pool**

The ILP's cash is managed by the University through the Treasurer of the Board of Regents. During 2019 and 2018, the Program's funds on deposit with the University were invested in the University's IFP.

**(d) Restricted Investments**

Restricted investments represent unspent bond proceeds invested at State Street Bank and invested bond proceeds held by trustees to serve as debt service funds in accordance with the terms of the bond indenture and are stated at amortized cost.

**(e) Internal Lending Program Receivable**

Internal Lending Program receivable represents amounts owed by participating units in the University to the Program. Any internal loans authorized after the inception of the ILP require a signed financing agreement before funds are released. The agreement is signed by a borrowing unit representative, a representative from the Provost's Office, the Associate Vice President for Treasury, and the Vice President for UW Finance. Loans transferred at the Program's inception do not have a financing agreement. All receivables are from within the University.

**(f) Due to University of Washington**

Due to University of Washington represents cash paid by the University on behalf of the ILP as a result of timing of capital expenditures and will be reimbursed by the ILP at a later date.

**(g) Unearned Revenue – Build America Bonds**

The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) program, which authorized state and local governments to issue BABs as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt bonds. The issuers receive a direct federal subsidy payment for a portion of their borrowing cost on BABs equal to 28% to 35% of the total coupon interest paid to investors. The direct federal subsidy, once earned, is considered a nonexchange transaction separate from the interest payments made by the Program and is recorded in nonoperating revenues when the Program makes its interest payment and all eligibility requirements are met.

**(h) Operating Revenues and Expenses**

The Program's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing loans to internal borrowers – the Program's primary business. Operating expenses are all expenses incurred to provide loans to internal borrowers. Nonoperating revenues consists of investment revenue generated by the short-term investments the Program holds during the year and BAB federal subsidies.

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**(i) Federal Income Taxes**

As a part of the University, the ILP is exempt from federal income taxes, except to the extent of unrelated business income. The ILP did not incur unrelated business income tax during 2019 and 2018, and accordingly, the financial statements do not include a provision for federal income taxes.

**(j) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(2) Cash in the University of Washington Invested Funds Pool**

Pooled investments held on behalf of the ILP by the University of Washington are recorded at the ILP's share of the carrying value of the University of Washington IFP. These funds are available on demand without prior notice or penalty. The IFP was invested as follows at June 30:

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	3.7 %	4.7 %
Treasuries and agencies	68.3	66.5
Mortgage-related securities	10.3	10.1
Asset-backed debt securities	10.5	8.6
Corporate and other fixed income	7.2	10.1
Total	100.0 %	100.0 %

**(3) Concentrations**

Financial instruments that subject the ILP to concentrations of credit risk consist of pooled investments held on behalf of the ILP at the University of Washington.

**(4) Restricted Investments**

Current restricted investments of \$27.3 million represent unspent bond proceeds. Such amounts are invested at State Street Bank and consist of money market funds, which hold U.S. government securities with remaining maturities of one year or less at the time of purchase. Any interest earnings in excess of the arbitrage rate may be subject to rebate to the Internal Revenue Service (IRS). During fiscal years 2019 and 2018, there were no rebatable arbitrage earnings due to the IRS. Restricted investments are classified as current assets based upon the Program's intention to spend down on capital projects during the next fiscal year.

The ILP's restricted investments are managed by the University through the Treasurer of the Board of Regents.



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**(5) Internal Lending Program Receivable**

Internal Lending Program receivables include receivables that were transferred and new receivables made since inception of the Program. The transferred receivables had fixed rates that ranged from 3.0% to 6.4%. The new receivables had a uniform rate of 5.50%. Effective April 1, 2015, the ILP interest rate was reduced to 4.75%, and was further reduced to 4.50% effective July 1, 2016.

Estimated repayment schedules related to the internal lending receivable balances from participating units as of June 30, 2019 are summarized as follows:

**Internal Lending Program Receivable**

(Dollars in thousands)

	<b>Central</b>		<b>School of medicine</b>		<b>University of Washington Medical Center</b>		<b>Student life</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2020	\$ 21,450	25,179	3,236	1,564	16,166	16,524	4,708	6,108
2021	21,901	24,283	3,397	1,398	16,850	15,706	4,932	5,884
2022	25,901	23,319	3,569	1,223	17,614	14,853	5,167	5,649
2023	22,481	22,315	3,740	1,042	18,418	13,962	5,413	5,403
2024	22,003	21,380	3,330	857	19,255	13,031	5,670	5,145
2025–2029	109,436	93,946	12,942	2,242	79,434	52,235	32,372	21,414
2030–2034	118,567	69,715	2,645	135	84,461	32,374	25,956	14,007
2035–2039	104,268	42,756	—	—	52,888	15,880	28,087	8,168
2040–2044	81,998	21,848	—	—	33,759	7,553	21,499	1,629
2045–2050	56,715	5,302	—	—	15,775	750	—	—
<b>Total</b>	<b>\$ 584,720</b>	<b>350,043</b>	<b>32,859</b>	<b>8,461</b>	<b>354,620</b>	<b>182,868</b>	<b>133,804</b>	<b>73,407</b>

	<b>Commuter services</b>		<b>Intercollegiate athletics</b>		<b>Housing and dining</b>		<b>Total</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2020	\$ 566	319	3,000	10,759	18,854	33,732	67,980	94,185
2021	592	293	3,138	10,616	19,734	32,777	70,544	90,957
2022	619	266	3,283	10,467	20,613	31,786	76,766	87,563
2023	648	238	3,433	10,310	18,154	30,802	72,287	84,072
2024	678	208	4,610	10,127	18,990	29,879	74,536	80,627
2025–2029	3,884	543	38,344	45,986	108,467	134,003	384,879	350,369
2030–2034	365	4	47,999	36,356	125,764	104,418	405,757	257,009
2035–2039	—	—	60,086	24,301	146,143	70,682	391,472	161,787
2040–2044	—	—	75,215	9,211	155,413	30,585	367,884	70,826
2045–2050	—	—	1,402	5	56,229	5,255	130,121	11,312
<b>Total</b>	<b>\$ 7,352</b>	<b>1,871</b>	<b>240,510</b>	<b>168,138</b>	<b>688,361</b>	<b>503,919</b>	<b>2,042,226</b>	<b>1,288,707</b>

The debt service payments shown above do not include receivables for projects under construction totaling \$5.5 million. The ILP does not finalize loan payments until construction is complete.

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**(6) Commercial Paper**

Commercial paper payable outstanding as of June 30, 2019 totaled \$25.0 million. This short-term borrowing program is primarily used to manage cash flows for capital projects that are funded with long-term debt. The use of commercial paper will typically increase prior to the issuance of long-term debt and be paid down with the proceeds of the long-term debt. During 2019, the University issued \$60.0 million in commercial paper and paid off \$125.0 million in commercial paper.

**Short-Term Debt Payable**

(Dollars in thousands)

		<b>Balance at June 30, 2018</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at June 30, 2019</b>
Commercial paper	\$	90,000	60,000	(125,000)	25,000
Total	\$	<u>90,000</u>	<u>60,000</u>	<u>(125,000)</u>	<u>25,000</u>

**Short-Term Debt Payable**

(Dollars in thousands)

		<b>Balance at June 30, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at June 30, 2018</b>
Commercial paper	\$	25,000	155,000	(90,000)	90,000
Total	\$	<u>25,000</u>	<u>155,000</u>	<u>(90,000)</u>	<u>90,000</u>

The Board of Regents has approved the University's \$250.0 million commercial paper program in an ongoing resolution. The University may issue commercial paper at any time within the limits of the resolution.

**(7) Long-Term Liabilities**

Long-term liabilities for the years ended June 30, 2019 and 2018 include State of Washington General Obligation Bonds, University General Revenue Bonds, Revenue Bonds payable from specific revenue streams relating to participating departments, State of Washington COP's, and funds borrowed through the Capital Asset Pool that are payable back to the IFP at the University. These obligations have fixed interest rates ranging from 1.6% to 8.0%.

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Debt service requirements related to bonds payable and certificates of participation payable at June 30, 2019 were as follows:

**Bonds Payable and Certificates of Participation Payable**

(Dollars in thousands)

	State of Washington General Obligation Bonds		University of Washington Revenue Bonds		State of Washington Certificates of Participation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 8,373	2,925	43,095	79,435	1,780	250	53,248	82,610
2021	8,764	2,501	45,940	77,524	1,870	170	56,574	80,195
2022	9,127	2,049	48,105	75,388	1,440	87	58,672	77,524
2023	9,568	1,578	46,805	76,141	215	18	56,588	77,737
2024	9,946	1,085	48,835	74,099	225	9	59,006	75,193
2025–2029	16,963	1,373	280,595	332,473	—	—	297,558	333,846
2030–2034	—	—	296,480	262,009	—	—	296,480	262,009
2035–2039	—	—	297,091	194,993	—	—	297,091	194,993
2040–2044	—	—	440,875	102,148	—	—	440,875	102,148
2045–2049	—	—	167,090	38,046	—	—	167,090	38,046
Premium	3,889	—	125,161	—	526	—	129,576	—
Total	\$ 66,630	11,511	1,840,072	1,312,256	6,056	534	1,912,758	1,324,301

Long-term liabilities activity for the years ended June 30, 2019 and 2018 is summarized as follows:

**Long-Term Liabilities**

(Dollars in thousands)

	Balance at June 30, 2018	Additions	Reductions	Balance at June 30, 2019	Current portion June 30, 2019
General obligation bonds payable	\$ 74,856	—	12,115	62,741	8,373
General revenue bonds payable	1,656,441	100,000	41,530	1,714,911	43,095
Certificates of participation payable	7,230	—	1,700	5,530	1,780
Unamortized premium on bonds	136,155	8,132	14,711	129,576	14,862
CAP payable to IFP	136,522	—	2,630	133,892	2,750
Total long-term liabilities	\$ 2,011,204	108,132	72,686	2,046,650	70,860

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**Long-Term Liabilities**

(Dollars in thousands)

	<b>Balance at June 30, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at June 30, 2018</b>	<b>Current portion June 30, 2018</b>
General obligation bonds payable	\$ 87,033	—	12,177	74,856	12,115
General revenue bonds payable	1,591,691	102,560	37,810	1,656,441	41,530
Certificates of participation payable	8,855	—	1,625	7,230	1,700
Unamortized premium on bonds	133,288	17,976	15,109	136,155	15,866
CAP payable to IFP	139,035	—	2,513	136,522	2,629
Total long-term liabilities	<u>\$ 1,959,902</u>	<u>120,536</u>	<u>69,234</u>	<u>2,011,204</u>	<u>73,840</u>

**(a) Issuance Activity**

On February 7, 2019, the University issued \$100.0 million in General Revenue & Refunding Bonds, 2019A, at a premium of \$8.1 million. The proceeds were used to fund various projects such as Clinical Transformation, as well as construction of Life Science building and the Northwest Hospital Childbirth Center. In addition, proceeds were used to pay off \$100.0 million in commercial paper. The 2019A bonds coupon rate is 5% for the first three years, after which the bonds have to be remarketed. If the bonds are not remarketed by May 1, 2022, they are subject to the delayed remarketing rate of 8%. The 2019A bonds have an average coupon rate of 7.67%. The average life of the 2019A General Revenue bonds is 3.2 years if the bonds are remarketed. If not remarketed, the average life of the bonds is 29.2 with final maturity on May 1, 2048.

On February 15, 2018, the University issued \$102.6 million in General Revenue & Refunding Bonds, 2019, at a premium of \$18.0 million. The proceeds were used to fund various projects such as implementation of the Housing and Food Services master capital plan, Phase 4A, and construction of Life Science building. In addition, proceeds were used to pay off \$90.0 million in commercial paper. The 2019 bonds have a 5.0% coupon rate. The average life of the 2019 General Revenue bonds is 15.6 years with final maturity on April 1, 2048.

**(b) Prior-Year Defeasance of Debt**

In prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the ILP's financial statements. As of June 30, 2019 and 2018, \$138.0 thousand and \$308.0 thousand, respectively, of bonds outstanding are considered defeased.

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**(8) Related-Party Transactions**

The University provides support to the Program by providing the following items:

- Use of the University's buildings and equipment
- Administrative and accounting support
- Serving as the purchasing and disbursing agent
- Various other operational and support services

These costs are not billed but are contributed to the ILP.

All Program receivables are due from borrowers within the University. All due from the University balances are invested in the University IFP. All investments are managed by the University Treasury Office.

**(9) Pension Plan**

The University offers the University of Washington Retirement Plan (UWRP), a defined-contribution plan with supplemental payment to beneficiaries, when required. The ILP participates in this plan and is allocated a cost for participation in the plan. The cost is included in the benefits load rate set by the University in calculating its fringe benefit expense and is applied on a per employee basis. These costs were not material for fiscal years 2019 or 2018.

*University of Washington Retirement Plan (403(b))*

Faculty, librarians and professional staff are eligible to participate in the University of Washington Retirement Plan, a 403(b) defined-contribution plan administered by the University.

403(b) Plan Description – Contributions to the plan are invested by participants in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations. Benefits from the plan are available upon separation or retirement at the member's option. RCW 28B.10.400 et. seq. assigns the authority to the University of Washington Board of Regents to establish and amend benefit provisions.

403(b) Plan Funding Policy – Employee contribution rates, based on age, are 5.0%, 7.5% or 10.0% of salary. The University matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents.

**(10) Commitments and Contingencies**

The Program is subject to claims and lawsuits that are covered by the University's self-insurance fund.

**(11) Subsequent Events**

On September 12, 2019, the University issued \$15.0 million in commercial paper. The proceeds will be used to fund a portion of the Destination One (Clinical Transformation) project.